



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

March 21, 1997

The Honorable Robert F. Bennett
Chairman
Subcommittee on Financial Services
and Technology
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, DC 20510-6075

Dear Mr. Chairman:

Thank you for your recent letter concerning the Year 2000 problem. We share your view that this matter requires the immediate attention of the banking industry. The Office of the Comptroller of the Currency has developed a comprehensive plan to address the Year 2000 problem. Our plan includes examining all national banks by the middle of 1998, concentrating first on institutions that are least prepared; working with banks to develop solutions for their particular problems; working with the other federal banking agencies to develop consistent examination procedures and to address Year 2000 preparedness in non-bank data centers and turnkey software packages used by banks; and heightening awareness of the Year 2000 issue within the banking industry.

In June 1996, the OCC issued an advisory letter, in conjunction with the Federal Financial Institutions Examination Council, alerting the chief executive officers of all national banks to the Year 2000 problem. Since then, OCC examiners have met with senior executives of each of the largest national banks and some community banks to discuss their efforts to prepare for the year 2000. With the other federal banking agencies, we are now preparing an updated advisory for bankers and planning for joint examinations of non-bank data processing centers and turnkey software packages. By the end of next month, we expect to complete, with the other banking agencies, a set of consistent examination procedures that will be used by all the supervisors. We will also begin interagency efforts to work with the bank trade associations to heighten industry awareness.

Also, in the next several months, we will complete an assessment of the nature and extent of each bank's Year 2000 efforts. Recognizing the importance of completing reprogramming

efforts to permit a full calendar year cycle for testing, we plan to examine all institutions for Year 2000 preparedness by mid-1998. We will schedule first those institutions that merit early attention. As appropriate, we will undertake follow-up activities to ensure identified problem areas are addressed and to assess the effectiveness of the institutions' testing programs.

We believe these efforts taken together will focus bank attention on the critical issues raised by the Year 2000 problem. Notwithstanding our efforts and the efforts of others, however, the industry will face significant challenges. Many of the systems are large and extremely complex. Most experts believe that even the most prepared organizations will encounter some problems, because of the scope of the challenge and the insufficient number of skilled computer programmers available to meet the demands of business, including banks. Our goal is to work with the banks to ensure that major disruptions are avoided.

In your February 27 letter, you asked me to respond to seven questions regarding OCC oversight of the Year 2000 problem for the national banking system. Attached are responses to each of the questions raised in your letter. If I can be of further assistance, please do not hesitate to contact me.

Sincerely,

Eugene A. Ludwig
Comptroller of the Currency

Attachments

Q.1: Have you prepared an overall plan for ensuring Year 2000 compliance in the institutions that you regulate? What are the elements of this plan?

A.1: Yes. We have developed an overall strategy to ensure national banks are addressing the Year 2000 problem in a serious and timely manner. Our strategy includes: timely examination of Year 2000 preparedness at all national banks; problem-solving with institutions that appear to be facing difficulties despite substantial corrective efforts; cooperative efforts with the other banking agencies to address preparedness at data processing centers and in turnkey software packages used by banks; and heightening awareness of the Year 2000 problem within the banking industry.

OCC examiners have already met personally with senior management at the large national banks to discuss their preparations for the Year 2000. These banks have the most complex systems, and thus face the most difficult challenges. Our examiners have also discussed the Year 2000 issue with senior executives in a number of our community banks.

Our plan is to examine all banks for Year 2000 compliance efforts by mid-1998. In the largest banks, the OCC has already targeted the Year 2000 issue for special attention as part of ongoing supervision of these institutions. By June 1997, we will have completed an assessment of Year 2000 preparedness at all of our community banks. We will use the information gleaned from this assessment to identify institutions needing priority attention and will schedule those institutions for early examination. Examination schedules will be accelerated as necessary to ensure all institutions are reviewed by mid-1998. Following these examinations, we will undertake appropriate follow-up activities to ensure identified problem areas are addressed and to assess the effectiveness of the institutions' testing programs.

If during the course of our examinations we identify institutions that are encountering significant problems addressing Year 2000 problems, our examiners will work with them to devise a plan to address the problems in their most critical systems. Small institutions, in particular, may need added assistance, and our examiners may be able to help by sharing experiences from other institutions.

We recognize that focusing on banks alone will not be adequate to avoid major disruptions at the year 2000. Accordingly, we will be working cooperatively with the other banking agencies to ensure examination coverage of the data processing centers and third party software packages used by our institutions.¹ Additionally, we are aware that banks may face some exposure if major corporate customers for whom banks provide payments services fail to adequately address their Year 2000 issues. Our examiners will raise this issue with the bankers to encourage discussion with such corporate customers.

We will also work to heighten awareness within the industry. For example, OCC senior staff will underscore the efforts of our examiners by addressing the importance of the Year 2000 issue in

¹ Under the Multi-regional Data Processing Services (MDPS) and Shared Application and Software Review (SASR) programs, the federal banking agencies jointly examine large non-bank data processors and turnkey software packages.

public forums, including our Meet the Comptroller meetings with banking industry senior executives.

We believe these efforts should ensure national banks make serious efforts to address the most critical issues by year-end 1998 and undertake comprehensive testing during 1999.

Q.2: Have you advised senior executives of the regulated institutions of their need to initiate and fully support Year 2000 preparations?

A.2: Yes. The OCC is working to ensure national bank senior executives are aware of the Year 2000 problem and the importance of their support for Year 2000 preparations. The OCC sent an advisory letter, which it issued in conjunction with the Federal Financial Institutions Examination Council (FFIEC), to the chief executive officers of all national banks on June 17, 1996, to alert them of the Year 2000 issue.² (A copy is attached.) The federal banking agencies, working through the FFIEC, plan to send an updated advisory by June 1997 and are also beginning efforts to work with the bank trade associations to increase industry awareness.

² The advisory recommends that banks review all aspects of computer systems, including those provided by service bureaus, hardware vendors, and software vendors. Specifically, the advisory recommends that bank management ensure that external vendors and servicers adequately address the system and software issues related to the transition to 2000, and that institutions take adequate steps to ensure that critical operations will continue if the servicers or vendors are unable to achieve Year 2000 requirements. The advisory encourages banks to complete reprogramming efforts by December 31, 1998, in order to provide adequate time to test all their computers.

Q.3: What procedures or systems have you put in place to ensure that all of these institutions (or the vendors that supply their data processing services or equipment):

- a. Have begun an inventory of computer systems that may be affected?**
- b. Have developed, or are developing, a plan for making essential repairs?**
- c. Are on a schedule to complete planned reprogramming before December 31, 1998?**

A.3: Our response to question one describes the processes we have in place to ensure that national banks and their vendors are addressing the Year 2000 issue. The banking agencies are working together on a consistent set of examination procedures to assess the status of banks' efforts to inventory their systems, plan for effecting needed repairs, and complete reprogramming by December 31, 1998. These procedures should be completed by the end of April 1997.

Q.4: If you are including Year 2000 issues within your regular examinations of these institutions, is the timing of the examinations adequate in all cases to ensure a vigorous Year 2000 effort in which essential reprogramming will be complete before December 31, 1998?

A.4: Our plan is to examine all banks for Year 2000 compliance efforts by mid-year 1998. Following completion of those examinations, we will commence appropriate follow-up activities.

Q. 5&6: Have you prepared an overall assessment of the general status of Year 2000 efforts among these institutions? If so, please provide a copy of this assessment. If no assessment exists,

- a. Is such an assessment under way, and when do you expect completion?**
- b. Do you currently perceive a high degree of awareness and preparation for the Year 2000 Problem in these institutions?**
- c. How great is the risk that some will not achieve Year 2000 compliance on a satisfactory schedule? Are some types of institutions at particularly high risk?**
- d. Are you aware of any special obstacles that interfere with or preclude industry readiness for Year 2000?**

A. 5&6: We expect to complete an overall assessment of the status of Year 2000 efforts at national banks by June 1997. As stated in our answer to question one, one objective of our assessment is to identify those banks and non-bank data processing centers that are least prepared for the year 2000, in order to permit us to prioritize our resources most effectively.

Based on meetings with banks, we see a higher degree of awareness and preparation in the larger banks and large non-bank data processing centers. We see signs that many smaller institutions are aware of the issue, but in general they have not been as aggressive as larger institutions. One reason appears to be that smaller community banks tend to rely on outside vendors for some or all of their data processing tools. In our contacts with these banks, we will be pressing them to raise the Year 2000 issue with their vendors and to satisfy themselves that adequate action is being taken. Our joint examinations with the other federal banking agencies will also assist in ensuring the data processing centers and vendor supplied software systems used by many of these institutions are made Year 2000 compliant.

We will be working with institutions to ensure that major disruptions are avoided. But, consultants and specialists with whom we have met believe that even the most prepared organizations will encounter some problems on January 1, 2000, because of the complex nature of bank systems and the limited supply of skilled programmers and systems experts.

The Year 2000 problem presents a number of very difficult challenges for the banking industry. The industry relies heavily on effective computer communications between banks, external data networks, non-bank data processing centers, and bank customers. As a result, failure of any significant player to address effectively the Year 2000 problem could have ramifications for others in the industry.

Additionally, bank systems are often complex. They are likely to have been pieced together over many years and incorporate a variety of computer languages and hardware platforms. To correct the Year 2000 problem, technicians must delve into the computer coding in these systems, which in some of the largest banks may amount to tens of millions of lines of code. These complexities increase the likelihood that a fix in one area may create unintended new problems. As a result, even the best planned approaches may encounter last minute difficulties. However, there may be interim solutions to head off significant disruptions. Finally, the costs of making systems Year 2000 compliant will be substantial and may affect some banks' earnings.

Q.7: Who within the OCC is responsible for oversight of the Year 2000 preparations of the regulated institutions?

A.7: Leann Britton, Senior Deputy Comptroller for Bank Operations, is responsible for supervising the examiners who will evaluate banks' preparations to address Year 2000. Jim Kamihachi, Senior Deputy Comptroller for Economics and Policy Analysis, is in charge of developing the OCC's policy on the Year 2000 problem and overseeing our interagency policy development efforts.